

GLOBAL SECTORS OUTLOOK

N° 2 ■ 2007



EULER HERMES

World business sectors report

From overheating in emerging countries to the construction crisis in the US, the risks to world economic growth are mounting.

SPECIAL REPORT: ENVIRONMENTAL CONSTRAINTS

EULER HERMES
GLOBAL SECTORS OUTLOOK

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Business sector forecasts

(all countries)

(see 'Key to symbols' p.4)

<p>Global risk</p> <p>C</p> 	<p>▶ Textiles</p>	<p>Global risk</p> <p>B</p> 	<p>▶ Food products and beverages</p> <p>▶ Consumer electronics</p> <p>▶ Press, publishing</p> <p>▶ Automobiles</p> <p>▶ Automotive components</p> <p>▶ Manufacture of IT and telecoms equipment</p> <p>▶ Paper and pulp</p> <p>▶ Chemicals</p> <p>▶ Semiconductors and components</p> <p>▶ Construction</p> <p>▶ Distribution</p> <p>▶ Air and road transport</p> <p>▶ Clothing</p> <p>▶ IT and telecoms services</p> <p>▶ Energy</p> <p>▶ Transport equipment (railways, shipbuilding and aeronautics)</p>	<p>Global risk</p> <p>A</p> 	<p>▶ Pharmaceuticals</p> <p>▶ Machines</p> <p>▶ Steel</p>
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Source : Euler Hermes

Editorial

Global overheating on two fronts

Hourly wages

Euros/hour	2006	US = 100
Belgium	33.4	191
Sweden	32.4	185
Denmark	31.5	180
Germany	31.5	180
France	30.6	175
Netherlands	28.3	162
Luxembourg	28.2	161
Austria	27.5	157
Finland	27.2	155
United Kingdom	27.1	155
Euro zone	25.6	146
Ireland	25.6	146
Italy	24.5	140
EU-25	22.9	131
Spain	18.0	103
United States	17.5	100
Greece	16.0	91
Japan	15.3	87
Cyprus	14.1	81
Slovenia	12.7	73
Malta	10.6	61
Portugal	9.9	56
Czech Republic	7.4	42
Hungary	6.8	39
Poland	6.1	35
Slovak Republic	5.7	33
Estonia	5.6	32
Lithuania	4.6	26
Latvia	4.0	23
Romania	3.1	18
Bulgaria	1.8	10
China	1.0	6

Sources: Eurostat, Euler Hermes SFAC

At a time when world growth seems under threat from the US sub-prime mortgage crisis and its international monetary repercussions, paradoxically the rise in commodity prices has seemed to intensify. The paradox reflects the current upheaval on a worldwide scale in the usage of the factors of production. Industry, rapidly offshoring to low-wage countries, is saving considerably on the labour factor costs. This also allows it to indulge in both overinvestment in the productive capital factor and overconsumption of commodity inputs. Consequently, at constant levels of production, the demand for commodities is increasing. However, industrial output is far from being constant, but rather rising very considerably in the emerging countries – and by 18% in China! The old industrial countries (OICs) must now rely for growth especially on sectors protected from imports: construction, local services, and distribution. But construction is in the throes of crisis in the US (down by 14% in 2007), and a certain number of European construction markets seem very fragile. The products of emerging country overheated industries are thus likely to have increasing difficulties in finding market outlets. For the moment, however, in driving up commodity – and principally oil – prices, these producers are also fuelling debate over the associated environmental risks. World public opinion is focusing increasingly on these risks, and in particular on CO₂ emissions. The European Union is at the forefront of action on this front, with increased regulation likely to be imposed on a number of sectors, and the United States, for its part, might end up ratifying the Kyoto Protocol in 2008. Construction and construction-related materials and equipment promise to be the major beneficiaries of this movement, but this is a prospect for the medium term, given the uncertainties currently weighing on the sector. The timber and paper industries should also benefit. For sectors most exposed to international competition, however, the outlook is more dubious: after in its great wisdom allowing the excessive rise in the euro, will the EU go on and impose additional burdens on, for example, its car and chemical industries? Looked at from a different perspective, however, the EU's efforts at cutting carbon output could result in barriers to the entry of goods not conforming to European production standards and could also increase transport costs (whose low current levels are an important factor in offshoring). In this latter scenario, industries in Asia and the Americas could come end up as losers.

Philippe Brossard

Business sector forecasts

	Food products and beverages	Consumer electronics	Pharmaceuticals	Press, publishing	Automobiles	Automotive components	Machinery	Manufacture of IT and telecoms equipment	Paper and pulp	Chemicals	Steel	Semiconductors and components	Construction	Distribution	Road freight transport	Air transport	IT and telecoms services
World																	
United States																	
Canada																	
Japan																	
Euro zone																	
Germany																	
France																	
Italy																	
Spain																	
Netherlands																	
Belgium																	
United Kingdom																	
Sweden																	
Central & Eastern Europe																	
Asia																	
Latin America																	

Source: Euler Hermes

Key to symbols

Global risk

- Positive fundamentals and outlook
- Fairly good outlook
- Signs of weakness
- Structural weaknesses
- Imminent or recognised crisis

Our business sector forecasts are founded upon the microeconomic expertise of Euler Hermes group underwriters and analysts, who closely monitor risk in companies worldwide through our network of 35 local subsidiaries. This results in a qualitative assessment of the health and outlook of a sector. Generally, although not in every case, this assessment includes growth forecasts for a given sector. We focus more on the health of businesses (in terms of margins and solvency) than on their growth in turnover. ■

A global real estate crisis?

The US subprime mortgage crisis has raised questions over the chances of a real estate crisis spreading to other countries. On the face of it, residential housing markets are relatively independent of one another from country to country, and their price cycles remain fundamentally dominated by domestic factors, given that construction is not an exportable commodity. But the crisis did take on an international dimension through its financial impact on the banks, and because of this indirectly increased risks in the construction industry, in those places where house prices and/or household solvency levels have fallen to critical thresholds. In our view, the Netherlands, the United Kingdom and Spain are among the most vulnerable in this regard.

Overheating in commodity prices

The US subprime crisis has barely had any effect on industry for the time being. Because of this, price pressures on commodities are still strong, with the CRB composite index up by around 10% in 2007, after a 20% rise in 2006. Agricultural products, up to that point unaffected by rising prices, have also finally joined the party. High oil prices have accelerated production of biofuels, diverting a portion of world animal and plant production away from food. The intermediate goods sector is managing generally well to transmit these price rises downstream, either directly to consumers, or to its industrial clients. As a result, trading margins have tended to be maintained or to widen, in the agrofood industry and in the iron and steel sector alike. Bulk chemicals are in a more delicate situation, however, with ethylene this year rising by less than oil prices, due to overinvestment. For their part, the consumer goods industry and its subcontractors are having far more diffi-

culty in passing on their increased supply costs. Consumer electronics and semiconductors, products fuelled by strong volume growth, continue to suffer from genuine price deflation. Automotive component suppliers (except in Japan) have to cope with lower prices paid by their automaker clients, driving them to offshore operations to low-wage countries in Asia, Central Europe and Latin America. Despite this, the automakers themselves – or at least the big European and American groups – are suffering from low margins. Only the Japanese auto sector is enjoying genuine prosperity across the board, boosted by the very advantageous yen rate of exchange.

The boom in capital goods

The deflationary tendency seen in some parts of world industry reflects the existence of significant surpluses in industrial capacities. Low-wage

countries are equipping themselves very rapidly, but production capacities in the old industrial countries (OICs) have not come down sufficiently. This overinvestment of course maintains deflationary pressures, and these could intensify as world consumption slows. But the upside of this is the support it gives to the capital goods sector. This is particularly beneficial to German exports, despite the overvalued euro: price effects have little impact on this category of goods, where producers often are in the position of enjoying mini-monopolies. Japanese capital goods manufacturers are also benefiting. The air, sea and rail transport equipment sectors are also very dynamic. But exchange rates are having far greater impact, benefiting American and Asian producers at the expense of their European counterparts. ■ PB

Rising commodity prices

		2006		2007		2008	
		Average price	Yearly change	Average price	Yearly change	Average price	Yearly change
Nickel	\$/tonne	24,244	64%	37,632	55%	27,083	-28%
Grains	Index (dollars)	220	16%	315	43%	355	13%
Steam coal	\$/tonne	66	0%	85	29%	85	0%
Wool	Australian cents/kg	737	4%	924	25%	886	-4%
Cocoa	\$/tonne	1,782	5%	2,172	22%	2,283	5%
Pulp	\$/tonne	669	9%	787	18%	823	5%
Silver	US cents/troy ounce	1,156	58%	1,318	14%	1,100	-17%
Gold	\$/troy ounce	604	36%	689	14%	700	2%
CRB Index	Index (dollars)	377	21%	416	10%	410	-1%
Oil	\$/barrel	66	20%	72	9%	74	2%
Cotton	US cents/lb	57	6%	63	9%	72	15%
Copper	\$/tonne	6,714	82%	7,235	8%	7,224	0%
Steel	\$/tonne	503	4%	536	7%	493	-8%
Propylene	Euros/tonne	835	14%	888	6%	943	6%
Coffee	US cents/lb	104	2%	110	6%	111	1%
Natural gas	\$/million BTUs	7	-24%	7	6%	8	19%
Aluminium	\$/tonne	2,568	35%	2,670	4%	2,667	0%
Rubber	Malaysian ringgit/kg	720	35%	738	3%	698	-5%
Zinc	\$/tonne	3,272	137%	3,345	2%	3,233	-3%
Ethylene	Euros/tonne	971	27%	961	-1%	1,031	7%
Sugar	US cents/lb	15	50%	10	-33%	9	-13%

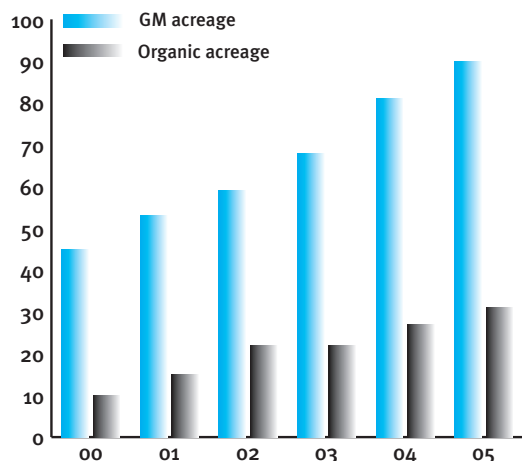
Sources: Datastream, Euler Hermes SFAC forecasts



Food products and beverages

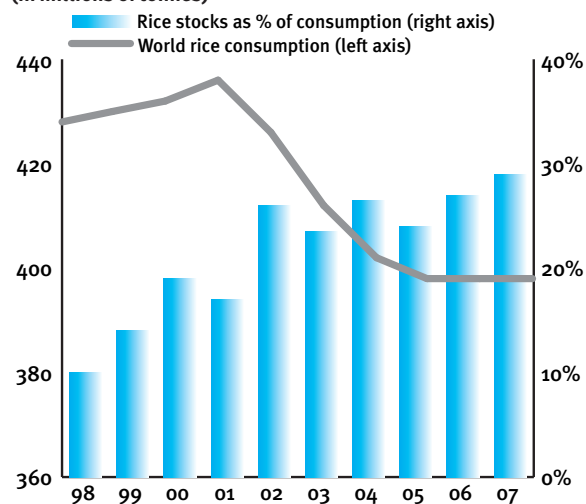
More, with less

Acreages planted worldwide
(in millions of hectares)



Source: UNESCO

World rice consumption and stocks
(in millions of tonnes)



Source: United States Department of Agriculture

Overview

The challenge facing modern agriculture and responsible agribusinesses is to increase production while using less inputs, in order to meet more demanding consumer preferences. In meeting this challenge, every player will have to raise their game.

Current situation

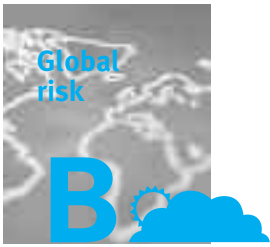
Agriculture and agroindustry face challenges difficult to reconcile: producing sufficient quality and quantities of food, safeguarding biodiversity, meeting public health requirements, and all the while restricting the use of inputs. For ten years the US has been using GMOs, with a total of 102 million hectares under GM crops in 2006, or 86% of the GM world total. And, in fact, the US has been cutting its use of pesticides and fertilisers since 1996. Similar efforts on a smaller scale are underway in Spain (50,000 hectares) and Romania (112,000 hectares). In a context of increasing demand and now-rising world agricultural prices

after thirty years of severe decline, Europe would also like to have its share of the action as well as do its part in meeting a major need.

Outlook

Measures such as the liberalisation of dairy quotas (both in world trade and in national domestic markets) and the reduction in set-asides (by up to 5% of production by volume, taking account of the acreage and the quality of the land concerned) do not yet seem to have proven sufficient to the challenges that face us. The French National Institute for Agricultural Research predicts that world agricultural production will have to double by 2050. As for clean water resources, UN figures show that it takes 1,500 litres of water to produce 1 kg of wheat and 15,000 litres to produce 1 kg of beef. The minimum human daily water requirement is between 2 and 20 litres, and those 20 litres are indispensable, if, in addition to drinking water, cooking and minimum hygiene needs are to

be met. Over the past 30 years, water requirements have grown by 55%. But increasing the production of food while safeguarding the environment and ensuring clean water supplies is a difficult task. If it is to be achieved, large-scale desalination of sea water seems essential. We will also need to reserve grains for human consumption and produce GM fuel crops using hydroponic and biomass technologies. At the same time, the industry will have to respond to consumer preferences for healthier foods: some 75% of Americans say they are concerned about their weight (against 66% in 2006), and 56% claim to be actively trying to lose weight. With the incidence of obesity on the rise in all developed countries, undoubtedly consumer concerns and their wish to shed weight will intensify. The other present challenge facing the agroindustry sector is to preserve its margins at a time when commodity prices, with the very rare exception of sugar prices, have shot up together for the first time in more than thirty years. ■ LB



Consumer electronics

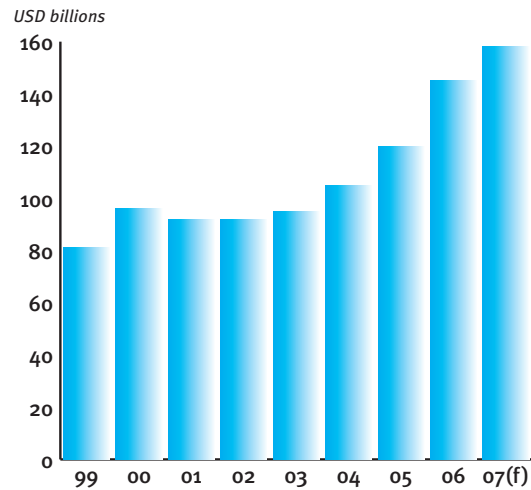
Surfing the digital wave

The major consumer electronics manufacturers

Group	Country	Ranking
Samsung	South Korea	1
Sony	Japan	2
Matsushita	Japan	3
Philips	Netherlands	4
Hltachi	Japan	5
LG	South Korea	6
Sharp	Japan	7
Toshiba	Japan	8
Haier	China	9
Sanyo	Japan	10

Source: Euler Hermes SFAC

Consumer electronics turnover in the US market



Sources: CES, Minefi

f: forecast

Overview

Consumer electronics include the whole range of hi-fi, video, computers, photographic equipment, games and other products manufactured for sales to private individuals. The bursting of the internet bubble at the start of the decade raised fears of a durable slump in the sector. This proved short-lived, thanks to the commercial arrival of digital technology in 2004, a revolutionary innovation in consumer electronics. It gave rise to new products such as MP3 players, flat screen displays, DVDs, GPS systems, high-definition TV and digital cameras – all of which are firmly established consumer success stories.

Current situation

From the most recent statistics available, the world consumer electronics market is estimated at around USD 310bn. The pulse of the market can be gauged from the two major world trade fairs in the sector – the IFA in

September in Berlin and the Consumer Electronics Show (CES) in January in Las Vegas. Judging by the latest attendance figures at these two events, the sector seems to be in fine form. Helped by the miniaturisation of electronic processors, hi-fi and video products offer increased performance and smaller sizes. They fuel and are fuelled by developments in related industries such as video games or mobile telephony. Japanese manufacturers historically enjoyed uncontested leadership in this sector, but this is no longer the case, and today some ageing companies have had to pool their efforts (e.g., Pioneer and the world leader in LCD TVs, Sharp). New competition has emerged from IT giants such as Microsoft and Apple (and notably its iPhone). Once brought into the digital realm, photography, video and music all integrate naturally into the computer. Moreover, digital convergence makes it possible to offer access to high-speed internet service, television

and telephony in one ‘triple play’ package.

Outlook

The technological innovations of the digital revolution, besides being numerous, are also creating new markets, such as that for mobile telephone ringtones. The strength of the consumer electronics market is creating double-digit growth (by value), estimated at 12% for 2007. And while strong demand is pushing up volumes in the sector, competition from the IT equipment suppliers, now joined by producers in China (e.g., Haier) and Korea (e.g., Samsung), is driving prices lower, to the great discomfort of the traditional operators. These latter, in order to meet the persistent erosion in their markets, must continuously innovate, and they are spending enormous sums on R&D. The weakest among them, for their part, have no alternative but to enter into alliances to achieve critical mass. ■ ML



Pharmaceuticals

The good times have passed

The leading world pharmaceutical companies

Group	Country	Ranking
Pfizer	USA	1
GlaxoSmithKline	UK	2
Novartis	Switzerland	3
Sanofi-Aventis	France	4
Johnson & Johnson	USA	5
Roche	Switzerland	6
AstraZeneca	UK	7
Merck & Co	USA	8
Abbott	USA	9
Bristol-Myers Squibb	USA	10

Sources: IMS, les Echos

The leading world generics manufacturers

Group	Country	Ranking
Teva	Israel	1
Sandoz	Sitzerland	2
Barr	USA	3
Merck KGaA	Germany	4
Actavis	Iceland	5
Watson Pharmaceuticals	USA	6
Ratiopharm	Germany	7
Mylan	USA	8
Ranbaxy	India	9
Stada	Germany	10

Sources: la Tribune, l'Usine Nouvelle, Companies

Overview

The world pharmaceutical industry benefits from a number of favourable factors that create a large volume of structural demand. These include longer life spans, the emergence of new diseases, the development of treatments for previously incurable pathologies, and regular access to medicines on the part, so far, of just 20% of the world population. Helped by such fundamentals, the industry was able three years ago to shrug off the devastating publicity that followed the sudden withdrawal of the anti-inflammatory drug Vioxx, an event that affected far less the image of industry as a whole than that of the drug's US manufacturer. With the world pharmaceutical market estimated at some USD 640bn in 2006, the large laboratories are expecting future annual value growth of around 5%. The double-digit growth of the previous decade is now no more than a distant memory.

Current situation

Up to 2004, the world's pharmaceutical companies relied on a tried and tested economic model: their considerable investments in new drugs were repaid by gaining 20-year patents on innovative molecules, during which time they enjoyed de facto monopolies on selling the drugs. But, with the irresistible rise of drug consumption in developed countries generally being accompanied by galloping health system deficits, official agencies such as the US Food and Drug Administration (FDA) and the European Agency for the Evaluation of Medicinal Products (EMA) are hardening their criteria for drug approval, witness the FDA refusal to approve the Sanofi-Aventis obesity drug Acomplia in the US. Or else, as in India, the authorities can deny the applicability of a drug's patent within their own country. Other clouds are gathering in the once-bright skies over the sector. First, the big pharmaceutical houses face frontal competition

from generics, fed by patents expiring on many of their previously highly profitable blockbuster drugs, a tendency expected to peak next year. There has also been a sharp rise in the legal risks of any unwanted side effects of new drugs launched. Lastly, the decreasing R&D productivity of the big companies means that fewer new molecules are coming on to the market.

Outlook

The blockbuster model of the last decade has to be reinvented. The big pharmaceutical laboratories will adapt initially through an inevitable concentration in this highly regulated sector. Next will come the purchase of young biotech startups by 'Big Pharma', a cheap way of restoring its thinning new product pipelines. Lastly, there has been a notable increase in subcontracting. This can be to outsource the manufacture of non-prescription drugs, or to outsource the monitoring and validation of clinical research stages of their new drugs under development. ■ ML



European paper distribution

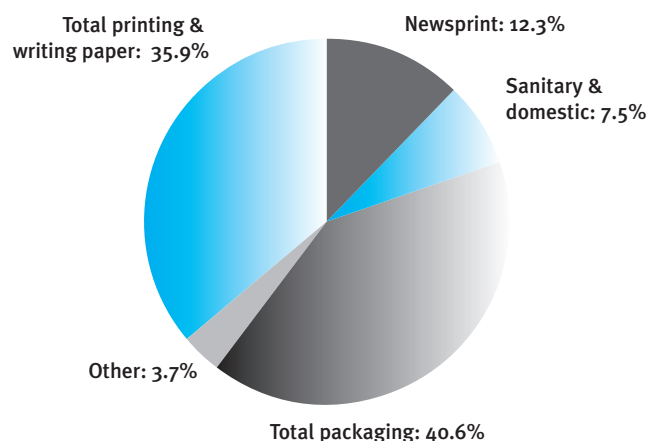
The big moves begin in Europe

Market share of the major European printing and writing paper distributors

Antalis + MAP	23%
Paper Link – Paper Link group	19%
Papyrus – Stora Enso group	14%
Antalis – Sequana Capital group	12%
Map – M. Real group	11%
Igepa – independent group	10%
Inapa – partially owned by Portuguese state	9%
Burgo	5%
Torraspapel – Lecta group	3%
Europapier – Mondi group	3%
Berberich	2%
Other distributors	12%
Top 5	66%
Top 10	83%

Source: Companies

Share of European consumption (in %)



Source: Eugropla

Overview

The European paper distribution sector is entering a period of unprecedented change. Our last review of the sector called for its consolidation. Today this is clearly underway. After an exchange between the Paper Link and Antalis groups of their respective subsidiary companies in Italy and France, Antalis is repeating the exercise with its acquisition (still to be approved by EU authorities) of Finnish papermaker M-Real's merchant division, MAP. With this, Antalis becomes the European market leader, with a market share of around 23%. This new state of affairs will give added impetus to the new number one's challengers, who must now re-examine their strategies if they are to avoid further loss of their own market shares. Concentration of the sector is becoming a priority for the European paper distribution sector if it is to fulfil its economic role in Europe and survive. Market organisation and financial viability imperatives will force a significant reduction in the number of actors in the sector.

Current situation

The situation remains the same. Oversupplies of paper rule out any increase in margins and, to the contrary, heighten competition. This in turn brings falling prices at a time when operating costs are constantly rising. The competition is further sharpened because consumption volumes are increasing only weakly. The tendencies seen in 2006 were confirmed over the initial months of this year. Relatively good volumes in Europe are supported by consumption in Central European countries, whose economies remain dynamic. Price increases are sought, and when they are implemented, they are deemed insufficient. These increases, sometimes substantial, cannot mask the falling prices seen in the major categories of paper, where lower consumption and stiff competition are effectively depressing prices. In parallel, the low US dollar is boosting imports into Europe. This is particularly the case for

printing and writing papers and for wood-free coated papers. Also, the strong euro encourages exporters in the dollar zone, impacting on margins of both European producers and distributors.

Outlook

The outlook for the sector depends on the good health of the European economies. For 2007, this will not prove as good as hoped for, and, once again, neither will profits. Most actors will enjoy better performances, but their net results will still fall below expectations. The paper distribution sector needs players of equal weight to its suppliers, and needs to concentrate if it is to effectively raise its margins. The sector must itself adapt if it wants avoid being forcefully restructured, something that would be clearly to its detriment. ■ Odf

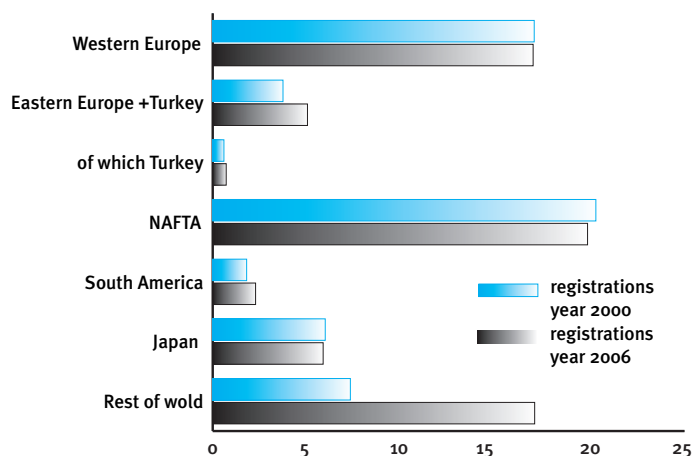


Automobiles

At stake for the 21st century

New vehicle registrations, by zone

millions of registrations



Automobile production, by major regions

Zone	Population 2006 (in millions)	Total vehicles 2005 (in millions)	Ownership rate		Rate of growth 2001 to 2005
			2001	2005	
Western Europe	399	232	55.1%	58.3%	5.8%
United States	296	235	78.7%	79.4%	0.9%
Japan	128	75	57.3%	58.4%	1.9%
South America	559	74	12.6%	13.4%	5.8%
China	1,317	28	1.2%	2.1%	75%
India	1,092	11	0.8%	1%	25%

Source: CFCA/Euler Hermes SFAC

Overview

World auto demand has grown steadily since 2000 by more than 3% per annum, but at a disparate pace across the major parts of the globe, and the industry faces a number of challenges for the new century. It needs to adapt its productive apparatus to stagnant or even declining demand in the old industrial countries (OICs) and invest in new consuming regions in Asia, Eastern Europe, Russia and South America. It will also have to design models meeting new demand requirements, in particular for low-cost vehicles, and increase its research into less polluting engines.

Current situation

The US car industry is in clear stagnation, caught between the collapse in demand for its gas-guzzling models and the galloping increase in its retirement costs. It has had to embark on drastic restructuring and a slew of site closures. Its European counterpart,

although still profitable, also needs to adapt if it is to meet or better the 6% operating margin targets announced by European carmakers. This is a very ambitious objective, to say the least, in particular for the generalist manufacturers, since it is one that is rarely or even never reached, and forces them to sharply cut costs, either indirectly by squeezing suppliers, or directly by offshoring production to low-wage countries. The Japanese car industry, by contrast, has benefited from its own innovativeness and, more particularly, from the yen's fall since 2000, during which time the euro has risen by 50% against the yen and by 25% against the dollar. Japan's automakers continue brazenly to post good results, allowing them to avoid fundamental restructuring. China's auto sector remains largely dominated by traditional manufacturers, but the emergence of new domestic automakers will be a major challenge in the years ahead.

Outlook

The race is now on to win significant market share in the new zones of consumption. China and India offer enormous prospects, if supply can keep up with demand. For now, the market is mostly based on existing European and American models, but given the still very low average purchasing power in these markets, the development of low-cost vehicles will clearly be the wave of the future. In the old – mature or even slightly declining – car markets, the prize is in pursuing the new concept of environmentally friendly vehicles. An enormous amount of research is being carried out on hybrid, electric-powered, and hydrogen fuel cell solutions. The stakes are high, and the game is expensive. If automakers are to shoulder the costs involved, they will need to have the margins to do so. ■ YL



Automotive components

Under pressure

Hourly wages (in euros)

Hourly wage	2007	2000	% change	United States = 100
Sweden	33.0	28.2	17.2%	201
Belgium	32.2	26.8	20.3%	196
France	31.4	24.5	28.3%	191
Germany	28.8	25.3	14.0%	176
United Kingdom	27.8	24.2	15.0%	150
Euro zone	26.3	21.3	23.3%	142
Ireland	26.1	18.4	41.7%	141
Italy	24.9	20.9	18.9%	134
EU-25	23.4	18.8	24.5%	126
United States	18.6	19.6	-5.3%	100
Japan	18.0	23.5	-23.5%	97
Spain	16.4	13.2	24.7%	88
Slovenia	13.0	8.1	59.6%	70
Portugal	10.7	8.3	28.7%	57
Hungary	7.5	4.0	89.5%	41
Czech Republic	7.4	4.0	84.2%	40
Poland	6.2	4.4	42.8%	34
Slovakia	5.9	2.9	105.5%	32
Romania	3.8	1.8	113.9%	20
China	1	0	0	5

Sources: Eurostat, Euler Hermes SFAC

Major auto component manufacturers

	Turnover	Profit	Profit/turnover
NAFTA, in USD	147,790,631	-5,959,452	-4%
Europe, in EUR	24,060,700	-236,900	-1%
Japan, in JPY	4,920,537,000	193,714,990	4%

List of companies taken into account

NAFTA, in USD	Johnson Controls	Magna Delphi*	Lear Dana*	TRW Federal	Visteon	Arvin Meritor
Europe, in EUR	Valéo	Faurecia	Plastic Omnium			
Japan, in JPY	Denso	Ansai				

*under Chapter 11

Sources: Companies, Euler Hermes SFAC

Overview

Within the auto sector, component suppliers contribute nearly 75% of the value of a vehicle and also carry out nearly 50% of total R&D in the sector. While therefore fundamental to the sector, they nonetheless have been under perennial pressure from automaker demands to cut prices, while at the same time having to cope with increases in their own raw materials costs. On top of this, they have to contend with the offshoring of auto construction and follow their main customers abroad.

Current situation

The difficulties among US automakers have led a number of component suppliers to seek protection under Chapter 11. Overgeneralised and overdependent on their domestic market, component manufacturers have been in a slump for several years, and more worrying still, they have been unable to turn the corner, despite

interest shown by investment funds. Restructuring, closures and refocusing on core activities all continue. The situation in Europe is less alarming, where component suppliers, more specialised in certain activities, are still managing to increase their R&D, although their production has to a large extent shifted to low-wage countries. However, component suppliers positioned in low value added products who have not yet significantly offshored their production are experiencing great difficulties. Japan's component manufacturers continue to thrive, driven by the good performance of Japanese automakers.

Outlook

Globalisation is still the rule, and component suppliers have to meet automakers' requirements, but beyond this, the question is one of profitability. And this, irrespective of their location, will depend on their ability to innovate in order to produce at a very

low cost to meet the challenge of low-cost cars or – in the case of some automakers and even India's Tata metals group – even super low-cost cars. Tata has announced the forthcoming launch of a car at just EUR 2,000. How can anyone build a car so cheaply? There is also vast scope for innovation in safety, which has already seen the widespread use of ABS braking systems, anti-skid systems, and airbags – all without impacting on the selling prices of vehicles. Eco-friendliness is now also a key area for innovation – with low-resistance tyres, engines that recover energy when decelerating, or systems to cut and automatically restart engines during traffic jams. The potential for research is vast, and component manufacturers will thus need to maximise their R&D spending. Given all this, the race for concentration and greater corporate scale is far from having run its course. ■ YL



Aeronautics

One record after another

Growth in orders 1st half of 2007

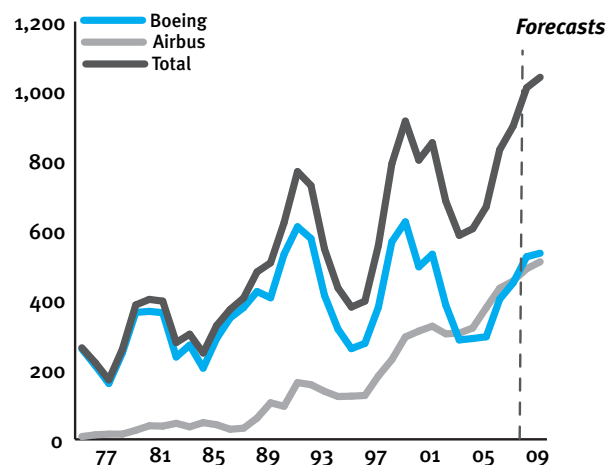
	Number of airplanes ordered as of 30 June 2007	Change from 31 Dec 2006
Airbus*	2,925	15%
Boeing	2,784	13%
Bombardier**	157	69%
Embraer**	399	-3%

* excluding A400M

** regional aircraft of 70-110 seats

Source: constructors

The aeronautics business cycle Deliveries by Airbus and Boeing



Sources: constructors, Euler Hermes SFAC forecasts

Overview

Thanks to a combination of favourable factors, the world aeronautics industry is setting record upon record. The industry fundamentals are sound, so the trend looks to stay positive up to at least 2010, leading some observers to talk about a 'super-cycle' in the industry. Some weakness factors do exist, of course, but these do not seem to pose any short-term threat to this expansionist cycle.

Current situation

Driven ahead by solid demand, low-cost airlines (which account for 30% of new orders for Airbus) and carriers in the Middle East and Asia are placing aircraft orders on a massive scale. High oil prices are also leading carriers to invest in more fuel-efficient aircraft. Every sector of the market is growing. Airbus and Boeing will together deliver 900 airplanes this year, followed by more than 1,000 in 2008. This compares to 800 deliveries in 2000, or a 25% increase in eight years! Regional

aviation is also back in good health, witness the improved orders for Canada's Bombardier (*see table, above*). Lastly, the business aviation market is setting new records, with nearly 1,000 airplanes delivered this year – of all types, from ultra-light jets to VIP versions of the new planes from Airbus and Boeing. In what amounts to a genuine revolution this year, the Very Light Jet market, dominated by the Textron group's Cessna and by Eclipse Aviation, is winning orders from companies and customers put off by increasingly onerous airport security formalities and check-in procedures. This segment is swarming with new actors – Adam Aircraft, Cirrus Jet, EPIC Aircraft and others – all with projects at various stages of advancement.

Outlook

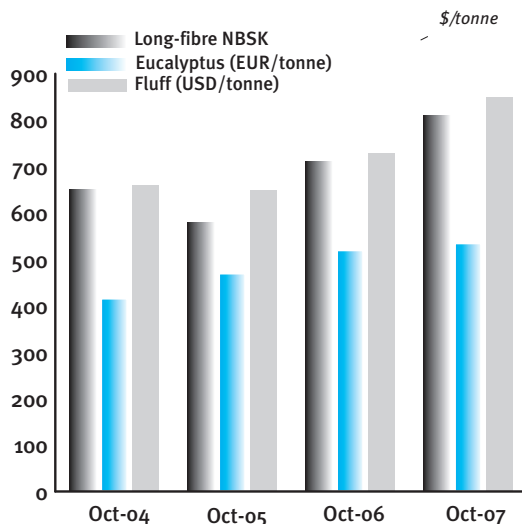
In addition to facing increasingly pressing environmental constraints (*see Special Report, p.24*), the aeronautics sector is also vulnerable to sudden upsets. The weakening in

demand following the US subprime crisis could encourage US airlines, which account for 40% of the world fleet, to again defer investment. While it is still a little early to assess the impact of the crisis, initial North American air traffic figures are rather reassuring: up by 6.3% in August 2007 against the previous year, and up by 5.1% since the start of the year. In addition, delivery rates are at present very stretched, and the productive apparatus is running nearly at saturation point. It is hard for Airbus and Boeing to better their current 1,000 annual deliveries, even though the former will gain greater flexibility once its industrial restructuring is completed. Lastly, and perhaps most importantly, the technological shock from the increasing use of composite materials in aircraft construction (less than 15% for A320, compared to more than 50% for the future A350XWB) threatens to delay the launch of future aircraft, as shown by the increasingly tight timetable for Boeing's B787. ■ NL

Paper and pulp

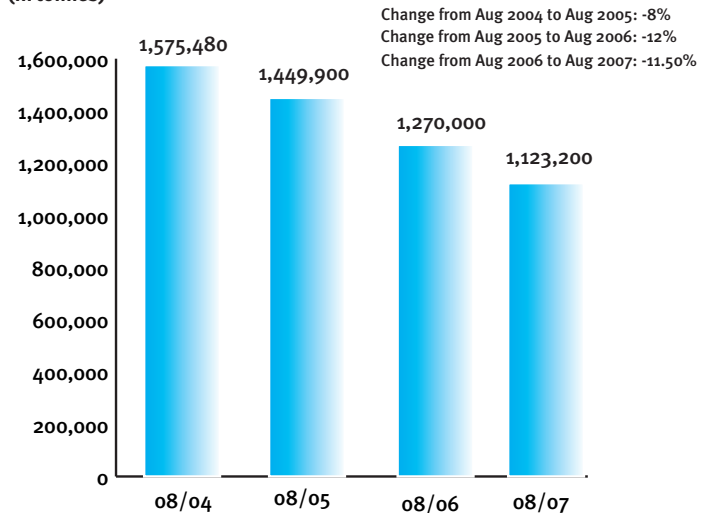
Pulp prices are rising, but manufacturers of printing and writing papers are struggling to regain significant margins

Pulp list prices



Sources: Pulp brokers, American Forest & Pulp Association

Pulp stocks in European ports
(in tonnes)



Source: Europulp

Overview

Seldom has the world pulp market been as transparent as it is now. World pulp demand is rising, but supplies are decreasing, and this explains the continuous increase seen in pulp prices for more than two years. This situation should continue for some time. New pulp factories will come on-stream but will not entirely make up for capacities closed, particularly in the case of long-fibre pulp. European producers are also penalised by having their costs denominated in euros but their invoicing carried out in dollars. On top of this exchange rate constraint in Europe, there is also a scarcity of wood and a big rise in wood prices. Although prices vary significantly between long and short fibres, the dollar prices for both have risen for a year, by 7% to 13% depending on the type. The spectre of a fall in pulp prices, for a time feared, is receding given the firmness in world demand.

Current situation

Increases in the selling prices of printing and writing papers are slow in coming, given competitive pressures. Adding to the effects of the euro/dollar exchange rate, paper consumption in western countries shows little growth and is even falling for certain types of paper. Under these circumstances, the impact of the rise in pulp prices is simply impossible for papermakers to deal with. There is a stark contrast between Western Europe, where pulp stocks are falling, and the world market overall, where pulp deliveries were rising over the first seven months of the year. Evidence of the weakness of European paper manufacturers, pulp deliveries in European ports are at a low, falling since the start of 2007. Similarly, European paper manufacturer pulp stocks have fallen to 23 days' requirements, against a figure of 30 days previously.

Outlook

Despite restructuring activities already carried out, paper manufacturers are unable to implement desired price increases. Supplies from the European industry are still abundant, but the rise in its production costs and the euro/dollar exchange rate are creating a distortion of competition that the European industry is stemming only very partially. Competing imports are countering efforts to rationalise the sector, but despite this papermakers will have to continue cutting their costs. European pulp producers will have to do the same. From 2008, softwood pulp prices will be less bullish than now, given recent and forthcoming new capacity openings in South America. On the other hand, long fibre prices should continue to rise, due to scarcity, with supplies now being lower than demand. ■ OdF



Energy

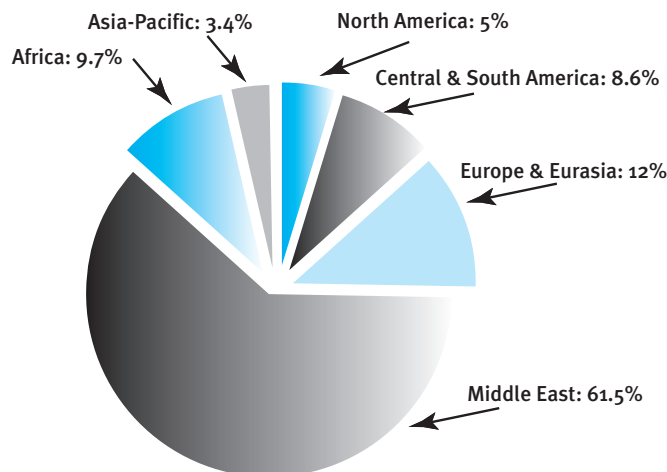
Oil – durably high prices

World consumption of primary energy

Consumption in millions of TPE	1995	2006	Share. of world consumption, 1995	Share of world consumption, 2006
North America	2,507	2,803	29.3%	25.80%
North America	385	529	4.5%	4.90%
Europe & Eurasia	2,780	3,027	32.4%	27.80%
Middle East	339	554	4.0%	5.10%
Africa	246	324	2.9%	3.00%
Asia-Pacific	2,311	3,651	27.0%	33.50%
of which, China	(916)	(1,698)	(10.7%)	(15.60%)
World total	8,568	10,878	100%	100%

Source: BP Statistical Review

Share of oil reserves in 2006



Source: BP Statistical Review

Overview

Oil prices hit new records in autumn 2007, chiefly because of the weak dollar and voluntary production cuts by OPEC members. On the more distant horizon, any genuine easing in price pressures is not very likely. Given the steady growth in oil demand, available world production capacities should remain low over the next few years.

Current situation

Oil prices rocketed this autumn. Crude prices posted record upon record, with West Texas Intermediate (WTI) hitting USD 90/barrel in mid-October. Besides tensions on the Iraq border, the price surge was partly due to speculative activity, with hedge funds moving into oil as the dollar dropped. But this is only part of the story. In fact, since the end of 2006, OPEC members have voluntarily cut their real supply of oil by 900,000 barrels/day, whilst world consumption rose by around 1,200,000

b/d. Non-OPEC producers, for their part, raised output by an estimated 500,000 b/d. Thus, supplies were in fact lower than in 2007. The International Energy Agency (IEA) estimates the deficit at around 1.5m b/d, and stock levels naturally fell, in particular in the US. Moreover, OPEC's recent September 11 decision to increase supplies by 500,000 b/d will only come into effect at the end of 2007 and will remain clearly not enough to meet the growth in world demand.

Outlook

Speculation in oil due to the weakness of the dollar could show something of a lull, but nothing currently indicates that the dollar has ended its slide. We thus expect Brent crude to average at least USD 70/barrel in 2008, after USD 71/barrel in 2007. In the medium term, according to the IEA, oil demand should rise by just over 2% per annum

to 2012, to 96 million b/d. Non-OPEC supplies should continue increasing by 500,000 b/d. OPEC, therefore, will have to make up the difference, i.e., increase its output by at least 1 million b/d every year. OPEC (and mainly Saudi Arabia) is able to do this, given its unused capacities, totalling 2.5 million b/d in 2007. Accounting for a third of world production, OPEC will thus continue to play a paramount role in the formation of oil prices. Despite increased investment by the oil majors over recent years, launches of production projects have tended to be delayed, and due to the complexity of the projects and to maximum equipment utilisation. Available production capacities, after peaking in 2009, should fall to 1.6 million b/d in 2012. The safety margin will then be very small and contribute to price pressures. ■ AdN



Chemicals

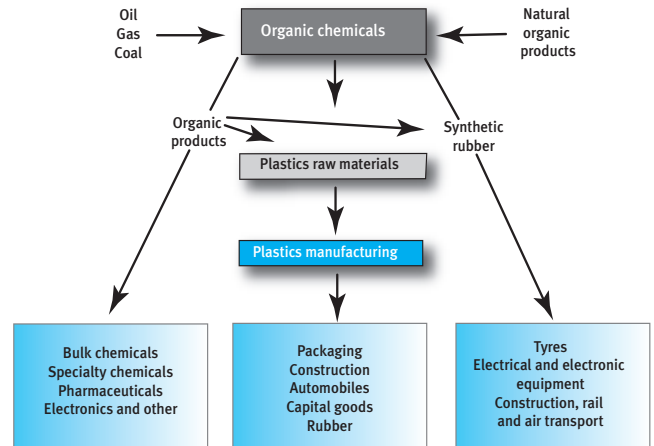
The end of the growth cycle?

The 11 leading world chemical groups

Group	Country	Turnover USD billions	Ranking
Basf	Germany	49.5	1
Dow Chemical	USA	49.1	2
Shell	United Kingdom	36.3	3
Exxon Mobil	USA	34.1	4
Ineos	United Kingdom	33.4	5
Dupont de Nemours	USA	28.9	6
Sinopec	China	27.8	7
Total	France	24.0	8
Bayer	Germany	20.0	9
Sabir	Saudi Arabia	19.7	10
Lyondell	United States	19.5	11

Source: Financial Times

Organic chemicals, the heavyweight of the sector



Source: Sessi

Overview

The world chemical industry has fared well for three years, supported by increased world economic growth, and by good demand from the BRICs (Brazil, Russia, India, and China). According to the European Chemical Industry Council (CEFIC), chemical production in 2006 rose 2.5% by volume in the EU-25 and by 4.4% in the US. Production should soon shoot up in the Middle East, where surplus petrodollars have been spent on building new refineries (mainly ethylene factories), due soon to be completed. A vital supplier to most sectors of the economy, the chemicals industry is benefiting from the upturn in world trade and the economic takeoff of the new industrial countries, led by China.

Current situation

Estimated at some \$1.96tn in 2006, world chemical production (excluding pharmaceuticals) is expected to post slightly slower growth in 2007, and there are now fears of a potential reversal of cycle in 2008. The slow-down in world growth taking shape should be a factor in this. More directly, the collapse in real estate bubbles in certain countries (such as the US) looks likely to bite, given that the construction sector remains one of the two major outlets of the chemicals industry. The industry also remains hostage to fluctuations (structurally upwards) in energy costs – of oil more than electricity, both necessary components of chemicals production. With prospects of flagging demand, it should be impossible for the sector to pass on its increased input costs to its customers. This factor could also decrease investor interest in the sector. In any case, the situation should see the specialty chemicals segment in a better

position, with its higher value added products allowing manufacturers to maintain respectable margins.

Outlook

Forced to conform to the requirements of the REACH directive (for the Registration, Evaluation and Authorization of Chemicals), effective from June 2007, European actors – to a greater extent than their US counterparts – are struggling to increase investment in innovation, in particular in the buoyant environmental segment. However it seems essential for them to increase investment, which would allow them to upgrade their product lines and so resist competition from new operators in the Middle East and Asia, whose far lower domestic production costs allow them to sell more cheaply in the West. In order to avoid any severe reversals in the next dip in the cycle, the world chemical groups could embark on a new wave of concentration. ■ ML



Steel

Reconciling growth and sustainable development

World steel supply and demand

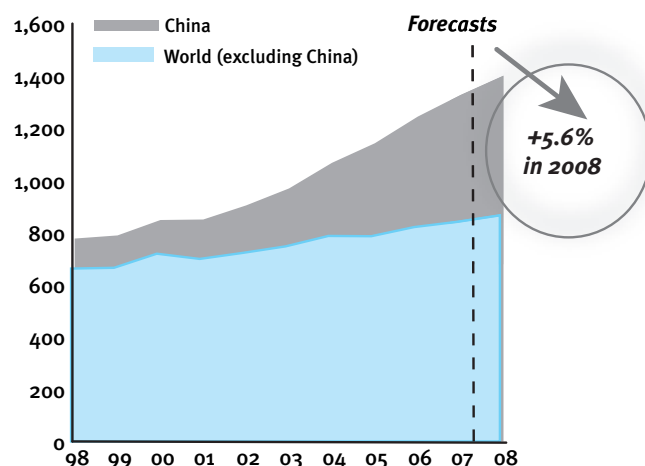
Supply	2006 (million tonnes)	% of total	2007
World	1,244	100%	6.7%
China	423	34%	15%
World (excluding China)	821	66%	2.4%
EU	173	14%	2%
Japan	116	9%	4%
South Korea	49	4%	6%
United States	99	8%	-4%
CIS	121	10%	4%
India	44	4%	-5%
Brazil	31	2%	10%
Rest of world	189	15%	3.5%

Demand	2006 (million tonnes)	% of total	2007
World	1,113	100%	5.4%
China	356	32%	10.5%
World (excluding China)	757	68%	3%
EU	156	14%	2%
Japan	79	7%	1.5%
South Korea	49	4%	6%
United States	120	11%	-4%
CIS	48	4%	6%
India	43	4%	9%
Brazil	19	2%	5%
Rest of world	243	22%	5%

Sources: IISI, Euler Hermes SFAC forecasts

World raw steel production (in millions of tonnes)

Annual average growth, 1998 to 2008: China 17%, rest of world 3%



Sources: IISI, Euler Hermes SFAC forecasts

Overview

Since the start of the decade, apparent consumption of steel has risen by 6.5% per annum, twice as fast as world GDP, driven by intensive steel usage in the new industrial countries (NICs). To meet this demand, most steel producing countries are upping capacities. World steel output will thus post a new record for 2007, at more than 1.3bn tonnes, an increase of 6.7%. But is this model of unbridled growth viable in the longer term? Nothing is less sure.

Current situation

Increasing urbanisation plus the expansion of infrastructures and the growth of the auto industry are all spurring on steel demand in countries such as India, Russia and China. In the space of less than five years, Chinese steel consumption has doubled, accounting for 34% of world demand

for 2007! These countries will continue to post rises in apparent consumption for the year, with increases of 10.5% in India, 9% in Russia and 6% in China. Demand will also rise by 5% in the Middle East and by 2% in Europe. The US, by contrast, will see a 4% drop in demand, due to difficulties in the residential housing and automobile markets. Supplies (up 6.6% this year) have been tracking demand (up 5.9%) for several years. The biggest growth in production is seen in the NICs, with Chinese output, for example, up by 15% in 2007. Prices should stabilise at high levels (apart from in some very small niche markets) so long as pressure on inputs remains strong: iron ore prices should rise by at least 10% in 2008, and non-ferrous prices will remain high.

Outlook

The trend remains favourable for the short term. But a slowing in NIC demand could lead to a problematic supply/demand disequilibrium. The growth in Chinese steel exports to Europe (up by 100% in one year) and to the US (up 130%) is also a constant source of anxiety to domestic producers in those markets. Next, there is the issue of strategic access to inputs, not only of iron ore (of which the three leading producers control 35% of world output) but also of energy, which are increasingly scarce and expensive, potentially harming steel consumption over the longer term. Lastly, the iron and steel industries in those countries that have ratified the Kyoto Protocol are fighting to stay competitive. In this regard, the European Union has recently set a new target of cutting greenhouse gas emissions from their 1990 levels by 20% by 2020. Many challenges now loom before the sector. ■ NL

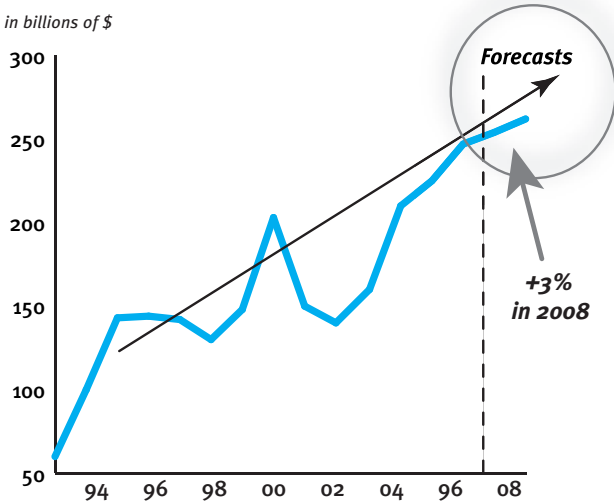


Semiconductors

Slowing

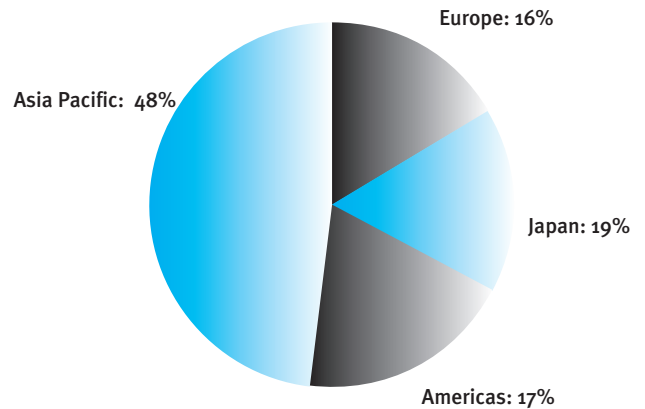
World semiconductor sales

in billions of \$



Sources: WSTS, Euler Hermes SFAC forecasts

Regional shares of world sales, as of July 31, 2007



Source: SIA (Semiconductor Industry Association)

Overview

Spurred on by technological innovations, semiconductors have made their way into a raft of products and equipment in the space of a few decades. They now account for around a quarter of the price of electronic equipment. The two main outlets are mobile telephony and IT, which together account for 50% of semiconductor sales. Since 1993, the world market has grown at an annual average rate of 11.5%, ending the year 2006 up by 9.7%, at \$247bn. Despite a fall in sales turnover, Intel remains the leading world manufacturer with 12.1% of the market, trailed by Samsung at 7.4%. The overall electronics industry is valued at an estimated EUR 1.2 trillion.

Current situation

Semiconductor prices fell in 2007, despite sales volume growth of

around 10% in mobile phones and PCs, hitting the margins of suppliers, who are waging fierce competition for market share. At the same time, the burden of updating production lines is increasingly great. The sector is relying heavily on growth in other markets, such as that now seen in electronic goods. The auto sector, which accounts for around 10% of the semiconductor market, is becoming one such vector of semiconductor market growth. Geographically, more than 45% of semiconductor sales are in Asia-Pacific, with the US and European markets together accounting for another 35%.

Outlook

The price rises seen at the end of the summer, following the usual agitation seen in the PC market beginning at this time of the year, will not be enough to make up for the large price falls that

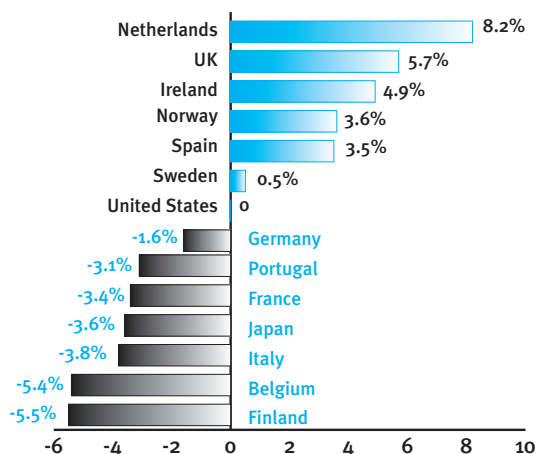
came at the start of 2007. The upturn does, however, offer some hope that the overproduction seen during the year, and which weighed on prices, is in the process of easing. But it does not call into question the present world order, in which every country is benefiting, but especially the emerging countries. We expect growth of around 4% for 2007, or half that predicted at the start of the year. In the long run, the major market trends will reassert themselves in terms of increased volumes, innovation and miniaturisation. After having borne the financial consequences of switching over to eco-friendly production, the sector can now hope to benefit from greener consumer preferences, such as the widespread enthusiasm for solar panels. ■ DM



Construction

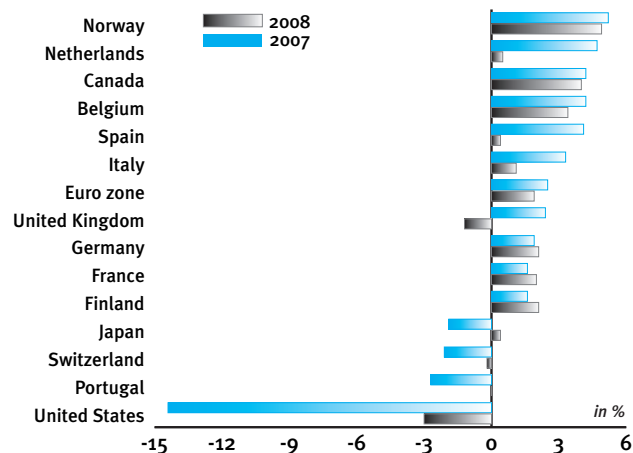
A spreading subprime effect?

Euler Hermes Index of House Price Pressures



Source: Euler Hermes SFAC

Housing investment by individuals varies greatly from country to country



Sources: Datastream, Euler Hermes SFAC forecasts

Overview

The subprime mortgage crisis in the US overshadowed the recent tide of corporate concentration in the construction sector. In many cases, residential housing needs remain striking, but given the high housing prices seen in many countries, restoring effective demand will be difficult. Apart from the US, certain markets such as the Netherlands, UK and Spain seem especially vulnerable.

Current situation

The sector has just seen numerous mergers and acquisitions. With the domestic property market expected to come back down to earth, Spanish companies have led the way: FCC took control of Austria's Alpine Mayreder Bau, ACS bought 25% of Germany's Hochtief, and Ferrovial took over airport operator BAA in the UK. Spain's Sacry grabbed a one-third holding in France's Eiffage but was looking to sell after its tumultuous rally failed. Among

building materials companies, Mexican cement-maker Cemex took control of UK-based RMC, Swiss group Holcim acquired Aggregate Industries in the UK, and Germany's HeidelbergCement bought UK building materials company Hanson. In France, Paribas Affaires Industrial took 65% of the roofing activities of Lafarge and 49% of Kaufman and Broad. Britain saw the merger of its two biggest house builders – Woodrow and Wimpey.

Outlook

Our Index of House Price Pressures takes into account house prices (very high in Ireland and Norway) and their relation to purchasing power (highest in Spain and the UK). In these same countries, prices have risen particularly rapidly over the past ten years. In the Netherlands and again in Norway and the United Kingdom, debt as a share of household incomes is highest. The Index takes into account all these

elements: the average price of houses, the relative change in prices over ten years, and debt as a share of gross disposable income. The markets that appear clearly at risk are Netherlands, the UK, Ireland and Spain, while Italy, Belgium and Finland are the markets least at risk. After the spectacular 14% fall in construction activity in the US in 2007, a further decline of 3.8% should follow in 2008. In Europe, the slowdown in the Spanish construction market will weigh heavily on the Spanish economy overall, given that construction accounts for 18% of the country's GDP. Housing starts in Spain have already fallen by around a quarter in one year. The British housing market – stunned by the near-bankruptcy of Northern Rock, known for being a commercially aggressive bank – is characterised by less risky financial structures than its US counterpart, but will still see a significant slowdown. In France, residential construction growth eased somewhat in 2007. ■ LB



Distribution

Consolidation continues

Geographical repositioning and tactical acquisitions in the food distribution sector

2006 Seller	Country	Buyer	2007 (underway) Country	Buyer
CARREFOUR	South Korea	ELAND	Slovak Republic	Investors
			Portugal	SONAE
			Switzerland	COOP Suisse
			Brazil	CARREFOUR
ATACADAO				
WAL-MART	South Korea	SHINGSEGAE		
	Germany	METRO		
AUCHAN			Morocco	ONA
FURSHET			Russia	AUCHAN (joint venture)
CASINO	Poland	METRO (Géant)		
		TESCO		
		(Leader Price)	USA	Investors
	Taiwan	FEDS (Géant)	(Smart & Final)	
TENGELMANN			Spain (supermkts)	CARREFOUR
			Portugal	JERONIMO MARTINS
			Poland	CARREFOUR (15 hyper and 180 supermkts)
AHOLD			USA (sale of US Food Service)	Investors
DELHAIZE	Czech Republic	REWE		

Sources: Euler Hermes SFAC, Companies

The world's top 20 food distribution groups

Ranking	Group	Country of origin	2005 turnover (USD billions)	% of turnover from foreign	No. of countries	Average turnover growth, 2000-2005
1	Wal-Mart	USA	312,4	20%	11	11.6%
2	Carrefour	FR	92,8	52%	29	2.8%
3	Metro	D	69,1	53%	30	5.0%
4	Tesco Plc	UK	68,9	24%	13	12.8%
5	Kroger	USA	60,6	0	1	4.3%
6	Target Corp	USA	52,6	0	1	7.4%
7	Schwarz (Lidl)	D	45,9 ^e	39%	22	13.0%
8	Aldi	D	45,1 ^e	38%	14	4.5%
9	Rewe-Zentral	D	44,0	32%	14	3.0%
10	Auchan	FR	41,2	45%	11	7.1%
11	Albertsons Inc	USA	40,4	0	1	1.9%
12	Edeka Zentrale	D	39,4 ^e	10%	5	4.9%
13	Safeway Inc	USA	38,4	15%	2	3.7%
14	Eon	J	37,0	10%	10	10.6%
15	Ahold	NL	36,9	22%	8	-3.4%
16	Leclerc	FR	35,5	5%	6	6.1%
17	ITM (Intermarché)	FR	34,2 ^e	10%	8	-2.3%
18	Tengelmann	D	29 ^e	50%	17	0.1%
19	Sainsbury Plc	UK	28,1	0	1	-1.8%
20	Casino	FR	27,9	25%	32	3.7%

Sources: Deloitte, Companies

(e : estimated)

Overview

The large food distributors face a difficult environment, with lacklustre markets and unabated pressures on margins. Operators continue restructuring their asset portfolios, prioritising core activities and those countries where they are leading players. They are also making tactical acquisitions to reinforce market share. New announcements of sales or acquisitions are coming in quick succession, alongside the consolidation of local markets, constituting a fundamental trend.

Current situation

World market leader Wal-Mart has just launched a takeover attempt to acquire full ownership of Japanese food distributor Seiyu, on the back of its existing 50.9% shareholding. It has decided to do so (with an investment of \$862m) despite persistent difficulties in this subsidiary, which is expected to post a net loss of around \$85m in 2008. Wal-Mart's reasoning behind the operation is the strategic importance

of the Japanese market, the world number two behind the US. For Carrefour, the world number two distributor behind Wal-Mart, rationalising its geographical positioning remains a major thrust of its strategy. The group has just sold its 12 Portuguese hypermarkets to Sonae and its twelve 50%-owned Swiss units to Coop Suisse. Over 2007-08, Carrefour should shed operations worth EUR 1.5bn. Parallel to this, the group is consolidating its position in key markets. In the first half of 2007, it made acquisitions totalling EUR 1bn, buying Atacadao in Brazil and Ahold Polska, which together account for an additional full-year turnover of EUR 2.3bn, in addition to acquiring 250 Plus supermarkets in Spain from Tengelmann. Casino, after having withdrawn from Poland and Taiwan, sold its US subsidiary Smart & Final, taking its total offloading to EUR 1.9bn. Casino, did, however, strengthen its position in Latin America, taking control of Exito in Chile.

Outlook

The major redrawing of the maps should continue, as the big food distributors look to maximise their return on investment. A merger between Ahold with Delhaize is likely. Esselunga is on sale in Italy and could interest Tesco and Rewe. In Germany, Tengelmann could be talking to Rewe and Edeka about the sale of its discount subsidiary Plus, number three behind Aldi and Lidl. The new Metro CEO, Eckhard Cordes, has announced a strategic review of assets and core activities in order to create added value for the business. Potential moves could include a stock market flotation for Media-Markt and Saturn and the offloading of its Extra supermarkets. ■ AG



Road freight transport in Europe

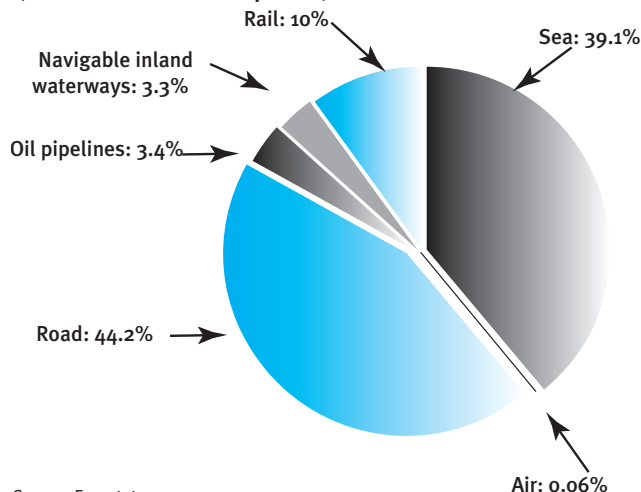
Towards a new balance of modes of transport, but at what price for road haulage?

National hauliers' share of goods carried outbound from and inbound to their countries (2005 figures, in %)

Country	Share of outbound	Share of inbound	Country	Share of outbound	Share of inbound
Belgium	40	32	Luxembourg	55	52
Czech Rep.	73	71	Hungary	52	45
Denmark	58	46	Netherlands	68	61
Germany	44	36	Austria	53	46
Estonia	76	61	Poland	83	81
Ireland	56	39	Portugal	75	81
Greece	68	61	Slovenia	80	80
Spain	58	58	Slovakia	68	64
France	29	25	Finland	72	81
Italy	41	37	Sweden	25	17
Cyprus	78	100	United Kingdom	46	32
Latvia	62	56	Liechtenstein	64	45
Lithuania	74	64	Norway	44	32

Source: Eurostat

EU-25 freight transport by mode, 2005 (basis: tonne kms transported)



Source: Eurostat

Overview

With growth of 38 % between 1990 and 2005, road freight transport remains the leading mode of freight transport in Europe, far ahead of rail. It is also the major employer (32%) in the sector, and is the best adapted to modern logistics demands. Victim of its own success, it is now under attack for clogging major roadways and for causing pollution at a time when the entire world is trying to curb CO₂ emissions, which have risen constantly since 1980. Among the major challenges to the EU-25 on the transport front will be to limit the convergence of practices among the EU's new members towards the EU-15 average, to develop alternatives to road transport, and to come up with the money to achieve this. 'Comodality' – i.e., the optimised use of all modes of transport – is moving ahead, but this will come at a cost, and road transport operators will contribute largely to this via eco-taxes. This added cost could accentuate the disequilibrium between actors in the

sector, unless there is faster progress in tax and social policy harmonisation.

Current situation

The European road freight transport sector is dominated, in tonnage terms, by Germany, Spain, France, the UK and Italy. These are countries where national transport is prevalent, but where international transport is showing a certain decline (except in Italy). In Belgium, Austria and the Netherlands, the relationship between national and international transport is better balanced. Intra-EU movement accounted for 93% of international movement, against 7% for extra-EU-25 movement. The best international traffic growth rates are being posted by the new EU member states. By contrast, French and Swedish hauliers are not doing as well. The rise of hauliers from the new EU member countries in international transport is very evident. European hauliers saw a small improvement in health in 2006, thanks to good GDP growth and thanks to

improved bargaining power with their customers. The number of insolvencies fell in most EU countries. Thus 2007 looks to be a year of consolidation for the sector, even though any over-optimism is tempered by the potential impact on growth of the sudden rise in oil prices and the subprime crisis.

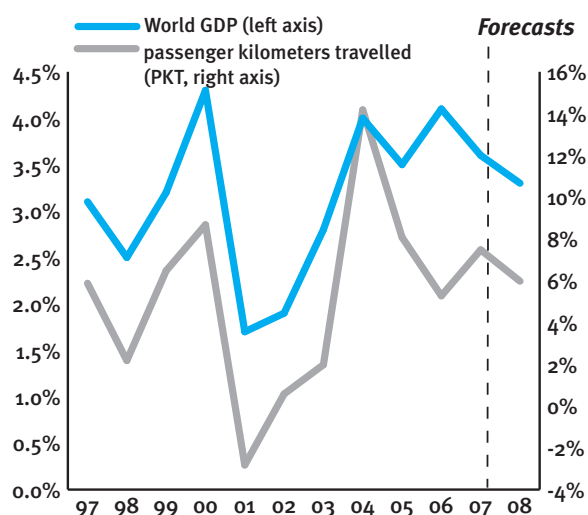
Outlook

The accession of Romania and Bulgaria to the EU further strengthens the need for regulatory harmonisation to create a framework for fair competition. All the various social and economic requirements this will bring will, in time, result in a safer and more environmentally friendly freight transport system, manned by qualified personnel, in certified businesses, using efficient vehicles and equipment. Inevitably, progress towards this end will increase the road freight transport costs of future European goods transactions. ■ FD

Air transport

Vital pursuit of cost reductions

World air traffic growth



Sources: ICAO, Datastream, Euler Hermes SFAC forecasts

Industry net profits, in USD billions

	2006	2007	2008
Total	-0.5	5.6	7.8
North America	-2.7	2.7	2.5
Europe	1.8	2.1	3.0
Asia-Pacific	0.8	0.7	2.0
Middle East	0.2	0.2	0.3
Latin America	-0.2	-0.1	0.1
Africa	-0.4	-0.1	0.0

Sources: ICAO, IATA forecasts

Overview

The aftershocks of the US subprime mortgage crisis have not for now impacted on world air transport demand. Growth in the Asia and Middle East markets and good growth prospects are reinforcing demand volume. With price competition also still keen, airlines have no option but to cut costs, especially with oil prices remaining very high.

Current situation

Despite the slowing of the US economy, world growth will be sufficiently strong this year – at 3.6% – to buoy air traffic. Over the long term, in fact, each percentage point increase in GDP brings a two-point rise in air transport demand. This is borne out by the growth in air traffic seen all across the globe between 2000 and 2006 – with increases of 78% in the Middle East, 42% in Europe and Asia and 27% in North America. The first eight months of 2007 confirmed this trend, with the

biggest increases again in the Middle East (18%) and Asia (7.4%). This rise in air traffic volumes is accompanied by strong control over costs. Thus, between 2004 and 2006, the member airlines of SkyTeam, OneWorld and Star Alliance saw their operating costs rise by 9%, or by just 2% at constant oil prices. Wages and marketing costs (through lower commissions to travel agents, the increased use of e-ticketing, etc.) even fell over the period. This cost discipline helped slow the overall rise in costs brought about by soaring oil prices.

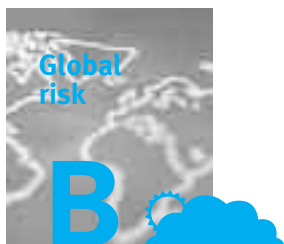
Outlook

Oil prices obviously are the focus of concerns. Having shot up by 43% in 2005 and 20% in 2006, they should rise by 8% for 2007 overall, for an annual average of \$68 a barrel, there-after steadying in 2008 and accounting for 27% of airline operating costs. However, so long as costs in other areas remain well behaved, operating

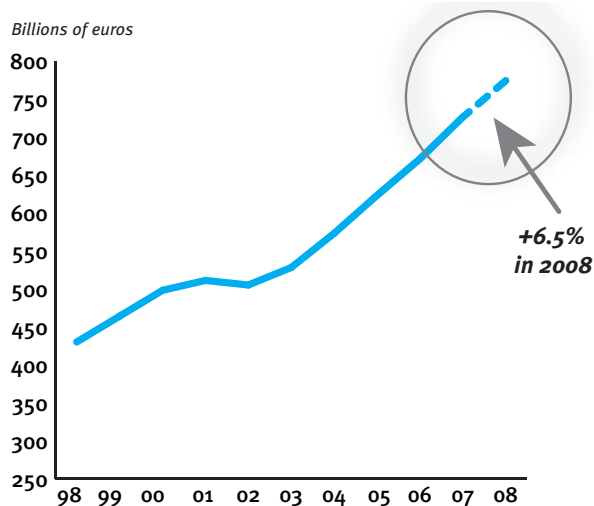
profit growth for the three alliances' member companies should accelerate, from 3.7% in 2006 to 4.7% in 2007 and 5.3% in 2008, despite still strong competitive pressures: low-cost carriers, according to Airbus, held market shares in 2006 of 10% in Asia, 26% in Europe and 29% in the US. Another factor in the recovery of airline margins is a reduction in the intensity of competition. The most effective way of achieving this is still via concentration among actors in the still very fragmented global market (in which Air France KLM, for example, has only a 4% market share). While in Europe would-be predators such as British Airways or Air France KLM are circling around Alitalia and Iberia, in the United States concentration still has far to go. ■ NL

IT and telecoms services

Some real constraints

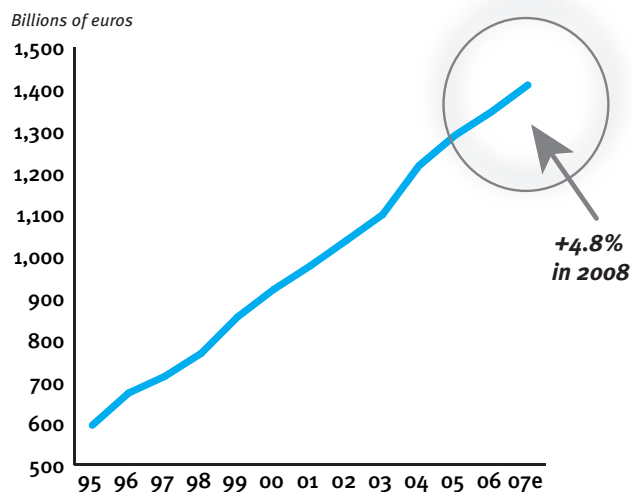


The market in IT services



Sources: Idate, IDC, Euler Hermes SFAC forecasts

The world market in telecoms services



Sources: International Telecommunication Union, Euler Hermes SFAC estimates

Overview

The world IT services market has enjoyed a sharp upturn since 2003, growing at a sustained rate. In this, it has benefited from the revival in world GDP growth, on which it is dependent, and has been boosted by the rising share of non-goods investment in overall IT expenditure (now at 66%). The world telecoms market has taken a similar path, with growth of better than 10% since 2002, unrelentingly approaching a total of \$1.5 trillion dollars, of which an increasing share is in services, and more particularly mobile telephony, as compared to equipment.

Current situation

The world market for IT services and software has been estimated, at the end of 2006, at EUR 671bn. Although still dominated by the US, this position is gradually being challenged. IT investment is growing at a faster rate

in the emerging countries, where growth in the productive apparatus is generating non-goods investment. On the other hand, despite increased demand, IT services operators are facing strong price pressures: prices are rising by only 0.5% per annum on average. This constraint heightens the need for tight cost controls, in particular on the wage front, which is a determining component of costs in the sector. This environment is conducive to concentration, which is also supported by the fragmented nature of the sector, with many actors present. The telecoms sector, where the process of concentration has already started, is characterised by a high degree of competition among the various players.

Outlook

Volume growth in IT services will be tempered by world GDP growth slowing to 3% in 2008. The price gains seen

in 2006, which compensated for earlier falling prices, will gradually give way to new pressures from customers. These developments will weigh on balance sheets and reinforce offshoring activity. The telecoms services sector still has room to grow, with a good investment outlook following the widespread take-up of ADSL, in the deployment of optical fibre or in consumer mobile TV (using an audiovisual broadcasting standard derived from TNT). The economic model (free access or paid access) of this new service will be a determining factor in relations between equipment suppliers, content providers, and operators. Fixed telephony, for its part, will remain attractive thanks to the rise of Multi-play and the convergence between fixed and mobile telephony. ■ DM



Special report

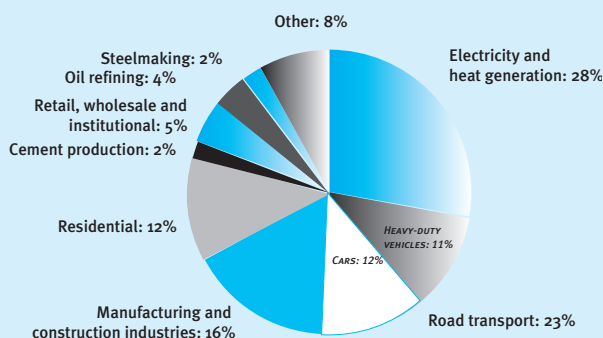
Environmental constraints

In the face of global warming, whose long-term impact is constantly being assessed, an awakening to the consequences of industrial development across the globe has led first NGOs and then governments across the globe to look at their own responsibilities. On a world level, this led to the 1998 Kyoto Protocol, although this was not ratified by all countries. On the more regional level, the European Union, looking to take the lead on the issue, wants to impose increasingly stringent emissions standards. Fundamentally praiseworthy, these measures will impact on different sectors of the economy, generating additional costs in implementing traceability, in R&D, in waste management, and even very simply in the purchase of pollution rights.

It was the growing awareness that the global warming documented over recent decades was very probably due to human activity that led to the signature of the Kyoto Protocol under the United Nations. Its purpose is to create a formal framework for the various countries to combat emissions of greenhouse gases, and primarily CO₂. It came into force on February 16, 2005, after ratification by Russia and after more than seven years of negotiations between nations. The biggest constraint on implementing the Protocol was that of cutting CO₂ emissions to 55% of their 1990 world total. More than 160 countries, including 36 industrial countries, have ratified Kyoto, with the notable exceptions of the United States and Australia. These latter argue that no constraints are imposed on developing countries, including India and China (the latter having just moved ahead of the US in greenhouse gas emissions). In order to allow some flexibility to the industrial countries ratifying the Protocol, three mechanisms were authorised. The most important of these creates a market for trading emissions rights ('pollution rights') or tradeable carbon credits. This market already functions in Europe (the Powernext Carbon spot market in CO₂ allowances). The second

mechanism is Kyoto's Clean Development Mechanism (CDM), which allows businesses in industrialised countries (Annex I Parties) to implement project activities that reduce emissions in developing countries (non-Annex I Parties), in return for certified emission reductions (CERs). The CERs generated by such project activities can be used by industrialised countries to help meet their emissions targets under the Kyoto Protocol. The third mechanism concerns the financing of projects for CO₂ storage and for reducing greenhouse gas emissions. The Protocol stipulates that industrial countries must have lowered emissions against 1990 levels by 5% in 2012. The European Union, which was the real driving force behind ratification of Kyoto, has imposed an even greater reduction upon itself, for an 8% cut. These constraints do have an impact on the more carbon-intensive sectors within the EU. More than 3,000 industrial companies and around 12,000 sites are affected, mainly in electricity and heat generation, iron and steel, paper, cement and refining. The first phase of the Kyoto Protocol (2005-2007) was overall not highly constraining on EU industries, since allotted quotas proved a little higher than actual emissions. The second phase (2008-2012) will be

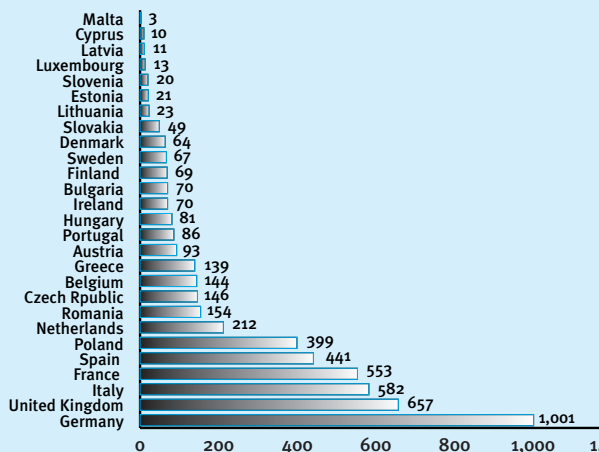
Major CO₂ producers, by category in 2005 EU-15



Source: European Environment Agency (EEA)

Greenhouse gas emissions, 2005 EU-15

in millions of tonnes of CO₂

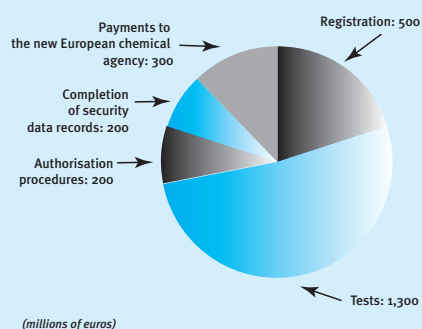


Source: European Environment Agency (EEA)

Chemicals

Facing the environmental risks

Total budgeted cost for implementing the REACH directive



Source: European Commission

The chemical sector's public image is marred by the polluting nature of its activities. In France, it is the third biggest emitter of greenhouse gases, behind the iron and steel industry and cement production. While not actually repentant, the industry is fighting to take the greatest steps to limit the risks of pollution. In the European Union, there is the REACH regulation (on the Registration, Evaluation, Authorisation and Restriction of Chemical substances), to improve protection of human health and the environment. Conforming to the difficult text of the regulation may well preoccupy the sector to the point of distracting it from its efforts to meet its obligations under the Kyoto Protocol. The latter sets out targets for cutting greenhouse gas emissions from the use of fossil fuels. That the United States has not signed up to Kyoto has not stopped chemical industry members of the American Chemistry Council from honourably reducing their greenhouse gas emissions.

Japanese chemical manufacturers have cut their emissions by 15% in eight years. But the award goes to the industry in Europe, which has reduced its emissions of greenhouse gases by 20% since 1990, with the French chemical industry notably cutting emissions by the equivalent of more than 20m tonnes of CO₂ over the period. The problem comes from the fact that, parallel to the efforts being made by the western chemical industry, Asia (and mainly China and India, for whom the Protocol does not set out any targets) and the Middle East have watched their greenhouse gas emissions rise by a quarter between 1990 and 2005 in the wake of their economic takeoff. The International Energy Agency predicts that the world chemical industry's greenhouse emissions will double between now and 2030, if no further action is agreed in the current international talks to set post-Kyoto targets for 2013-2020 for each of the major production zones. ■ ML

Paper and board

Paper and board: ecological, by nature

Paper and board recycling

	Recycling	Energy recovery	Total recovery
Paper and board	76.5%	12.9%	89.4%
Metals	53.0%	0.9%	53.9%
Glass	58.7%	0%	58.7%
Plastics	17.5%	35.3%	52.8%
Wood	20.2%	3.0%	23.2%

Sources: COFEPAC, Confederation of the French Pulp, Paper and Board and Industry (COPACEL)

Recycling of paper and boards is a demonstration of the effectiveness and environmentally responsible character of the paper industry, with a global recycling of waste paper that exceeds 50% of its consumption of wood pulp. In Europe, 3 out of 4 packages are recycled, a major effort contributing to the EU target of a minimum recycling rate of 55%. In the case of packaging papers, the rate exceeds 75%. Recycling helps limit the use of natural resources and cuts greenhouse emissions and the production of waste. As for the exploitation of forests, the industry only uses the by-products of forestry and sawmills. Paper is an environmentally friendly material, locking in atmospheric carbon. Indeed, a tonne of paper contains roughly 380kg atmospheric carbon or the equivalent of 1.4 tonnes of carbon dioxide*. This is explained by the nature of the raw material used: the cellulose fibres formed via

plant photosynthesis are made up of non-fossil carbon, and the forests fix 10 tonnes of CO₂ per hectare per annum. The consumption of paper and board thus 'locks up' atmospheric carbon durably and constitutes a carbon sink. This is in turn amplified by paper recycling, which increases the lifespan of the product. By contrast, when paper or board is destroyed, composted or incinerated, the CO₂ is returned to the environment, reducing the carbon sink effect. In France, the paper industry compensates for around 10% of the country's fossil fuel emissions. Paper and board are practical, universally used products that contribute fully and economically to achieving sustainable development.

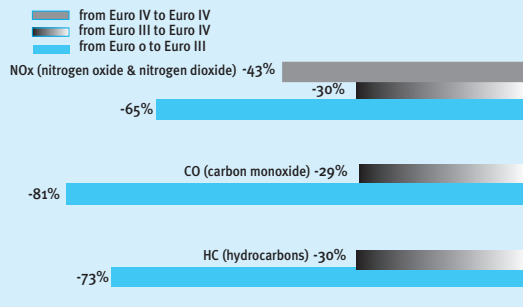
■ Odf

* figures based on data from data and citations in the 2006 annual report of the Comité Français de l'Emballage Papier Carton (COFEPAC)

Road freight transport

Europe addresses the issues

Change in emissions of pollutants (under Euro norms)



Source: Centre Interprofessionnelle Technique d'Etudes de la Pollution Atmosphérique (CITEPA) SES study

Road freight traffic has risen by 30% over the past 10 years. Over the past 50 years, the number of trucks on the road has quadrupled. The rise in world trade suggests that the international flow of goods will further increase. How can this demand be met while still respecting Europe's new environmental aim of cutting greenhouse gas emissions by 20% and increasing the share of renewable sources to 20% of the energy mix? The first stage consisted of setting European standards for maximum levels of pollutant emissions for transport vehicles. There is an entire set of increasingly stringent standards applicable to new vehicles in order to limit air pollution from transport. The current standards in force have allowed heavy-duty vehicle (truck and bus) emissions to be cut by 70%

against the Euro 0 standard of 1988-1992. How fast progress is made towards a cleaner environment depends naturally on the rate of replacing the fleet of old vehicles with new ones powered by newer, cleaner engines. However, given current technological limitations and future road congestion, the solution will inevitably involve the creation of new and costly infrastructures to promote co-modality. The infrastructures will have to be financed by new eco-taxes that are adjustable according to the environmental profile of polluters (the levels of their heavy-duty vehicle emissions, their pooling of shipments, ISO certifications, etc.) Such are the new factors that need to be part of EU harmonisation policy for it to be genuinely effective. ■ FD

Air transport

More work to do

Reductions in greenhouse gas emissions

Scope of application	Reduction from now to 2020	
	in %	in tonnes of CO ₂
Intra-EU flights	45%	44
All flights departing EU airports	46%	115
All flights arriving at or departing from EU airports	46%	183

Source: European Union

Between 1990 and 2004, greenhouse gas emissions related to air transport rose by 4.6% per annum, according to the EU, while world air traffic increased by 3.5% per annum. With strong air traffic growth expected, we estimate that by 2012 emissions from international flights departing from EU airports will equal more than a quarter of the EU's emission reductions required by Kyoto. It was for this reason that the EU has proposed bringing the air transport sector into CO₂ emission licensing, from 2011 for intra-EU flights and from 2012 for all flights originating from or arriving at EU airports. The quotas will be based on current consumption, so the sector is expected to become a net purchaser of CO₂ quotas. Air transport generates only 2% to 3% of green-

house emissions, versus roughly 12% from private cars. The Advisory Council for Aeronautical Research in Europe (ACARE) in this regard recommends cutting fuel consumption and CO₂ emissions by 50%, perceived external noise by 50%, and NO_x (nitrogen oxide and nitrogen dioxide) emissions by 80% in new planes between 2000 and 2020, challenges that the aeronautics industry is working to meet. Already, the new A380 and B787 aircraft consume between 15% to 20% less fuel and generate 20% to 30% less CO₂ emissions than preceding models. ■ NL

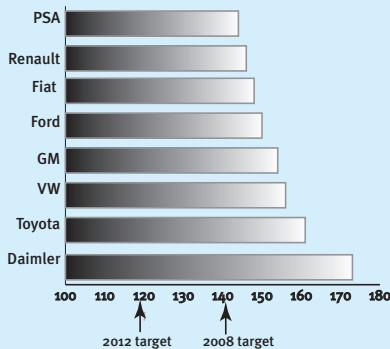
Automobiles

EU constraints in the wider global context

Motor vehicle traffic accounts for 12% of total CO₂ emissions in Europe. Ruling policy over the past ten years, aiming at reducing average fuel consumption, helped cut new vehicle emissions by 13%. A significant part of motor vehicle emissions is in the form of CO₂, implicated in the greenhouse effect and global warming. The EU and the European car industry have a soft target of cutting CO₂ emissions to 140g/km in 2008 and 120g/km in 2012. However, different automakers take very different positions on this. German manufacturers, positioned in top-of-the-range, very powerful vehicles, for now refuse to agree the 2012 targets, stating that they cannot meet them and asking that the standard be revised

to take account of vehicle weight, a measure opposed by French manufacturers. Clearly it will be hard to get the parties to agree. The European Union is also imposing strong constraints, but, with the increasingly long time it will take for new cars to replace the existing fleet in the EU, any significant drop in polluting emissions is going to take 10 to 15 years. Thus, while clearly praiseworthy, these measures will not be enough unless the auto industry worldwide – and notably in the US – decides to adhere to strict emission standards. ■ YL

Weighted average of CO₂ emissions by automaker in Europe



Source: CCFA

Construction

Towards energy self-sufficiency

Energy consumption in residential buildings

	Built before 1975	Newly built	All residences, 2007
KWh per m ²			
Heating	328	80/100	210
Hot water	36	40	37,5
Electricity	1,000	1,000	1,000

Sources: Observatoire de l'Énergie, INSEE

Building homes that are as energy-efficient as possible means making a number of choices: insulated cavity walls (c. 40cm thick), solar-powered water heaters, rainwater recovery cisterns, external heat pumps, trees or other natural windbreaks, wood-burning boilers, micro-windmills, triple glazing, low-voltage fluorescent lighting, floor coverings made from recycled materials, bamboo floors – the list goes on. Serious players agree in reckoning the total cost at EUR 1,500 per square metre, excluding land costs. Thus, building a home of 100 square metres would cost EUR 150,000. Further advances in solar panels seem essential, given their current costs and the scarcity of silicon, and solutions will emerge. One notable development is the

Dye-Sensitized Solar Cell (DSSC), applied using screen-printing technology or sprayed on. But up to now these have been of limited durability, and researchers are looking at improving this by coating the cell surface with a product made by Corus Colors. Another avenue being pursued, to be marketed in 2008 by a San José, California-based firm, uses an intermetallic compound of copper, indium, gallium and selenium (CIGS) as the basis of the solar cells, at around a third the cost of traditional solar panels. ■ LB

Summary of economic forecasts

Country		2005	2006	2007	2008
USA	GDP	3.1	2.9	2.0	1.9
	Inflation	3.4	3.1	2.8	1.8
	Unemployment rate	5.1	4.6	4.6	5.8
	General government balance (% of GDP)	-3.7	-2.3	-3.0	-3.0
	Public debt (% of GDP)	49.2	49.2	50.0	51.3
	Current account (% of GDP)	-6.1	-6.2	-5.6	-5.4
Canada	GDP	3.1	2.8	2.5	1.7
	Inflation	2.4	1.8	2.4	1.9
	Unemployment rate	6.8	6.3	6.1	7.0
	General government balance (% of GDP)	1.3	0.8	1.3	0.8
	Public debt (% of GDP)	69.3	67.2	63.4	60.9
	Current account (% of GDP)	2.0	1.6	1.5	0.4
Brazil	GDP	2.9	3.7	4.7	4.1
	Inflation	6.9	4.2	3.6	4.0
	Unemployment rate	9.8	10.0	9.8	9.7
	General government balance (% of GDP)	-3.0	-3.0	-2.4	-2.2
	Public debt (% of GDP)	46.7	46.0	44.0	42.0
	Current account (% of GDP)	1.6	1.2	0.9	0.4
Japan	GDP	1.9	2.2	1.9	1.5
	Inflation	-0.5	0.2	0.1	0.4
	Unemployment rate	4.4	4.1	3.8	3.6
	General government balance (% of GDP)	-5.4	-4.9	-4.6	-4.5
	Public debt (% of GDP)	164.6	167.3	171.2	172.8
	Current account (% of GDP)	3.7	3.9	4.4	2.9
China	GDP	10.4	11.1	11.5	10.5
	Inflation	1.8	1.5	4.5	3.8
	Unemployment rate	9.7	9.5	9.5	9.5
	General government balance (% of GDP)	-1.2	-1.2	-0.5	-1.0
	Public debt (% of GDP)	0.0	0.0	0.0	0.0
	Current account (% of GDP)	7.1	9.5	10.9	10.3
India	GDP	8.4	9.2	8.5	8.0
	Inflation	4.2	5.8	5.0	4.8
	Unemployment rate	8.0	7.6	7.3	7.0
	General government balance (% of GDP)	-7.3	-6.0	-5.5	-6.1
	Public debt (% of GDP)	66.0	64.0	61.0	63.0
	Current account (% of GDP)	-1.0	-1.1	-1.3	-1.4
Euro zone	GDP	1.6	2.9	2.6	2.1
	Inflation	2.2	2.1	2.1	1.6
	Unemployment rate	8.9	8.2	7.4	7.2
	General government balance (% of GDP)	-2.5	-1.6	-0.9	-0.8
	Public debt (% of GDP)	70.5	68.8	66.6	65.2
	Current account (% of GDP)	0.0	-0.1	0.1	-0.1
Germany	GDP	1.0	3.1	2.7	2.0
	Inflation	2.1	1.5	2.1	1.6
	Unemployment rate	11.1	10.3	8.8	8.3
	General government balance (% of GDP)	-3.4	-1.6	-0.1	0.0
	Public debt (% of GDP)	67.8	67.5	64.6	62.3
	Current account (% of GDP)	4.6	4.9	5.8	5.2
France	GDP	1.7	2.2	1.9	2.0
	Inflation	1.8	1.7	1.4	1.7
	Unemployment rate	9.8	8.9	8.2	8.2
	General government balance (% of GDP)	-3.0	-2.6	-2.6	-2.4
	Public debt (% of GDP)	66.3	63.7	63.8	64.1
	Current account (% of GDP)	-1.0	-1.3	-1.2	-1.9
Italy	GDP	0.2	1.9	1.7	1.5
	Inflation	1.7	2.0	1.6	1.8
	Unemployment rate	7.7	6.8	6.1	6.4
	General government balance (% of GDP)	-4.2	-4.4	-2.5	-2.3
	Public debt (% of GDP)	106.2	106.8	105.5	103.7
	Current account (% of GDP)	-1.6	-2.6	-2.4	-2.0
Spain	GDP	3.6	3.9	3.8	2.9
	Inflation	3.4	3.5	2.5	2.7
	Unemployment rate	9.2	8.5	8.2	8.6
	General government balance (% of GDP)	1.0	1.8	1.1	1.0
	Public debt (% of GDP)	43.0	39.7	36.4	33.7
	Current account (% of GDP)	-7.4	-8.6	-9.1	-7.7

Source: Datastream, Euler Hermes SFAC forecasts

Summary of economic forecasts (2)

Country		2005	2006	2007	2008
Netherlands	GDP	1.5	3.0	3.1	2.3
	Inflation	1.8	1.4	1.8	1.7
	Unemployment rate	6.6	5.6	4.6	4.4
	General government balance (% of GDP)	-0.3	0.6	-0.2	0.3
	Public debt (% of GDP)	52.3	47.9	46.8	45.0
	Current account (% of GDP)	7.7	8.6	7.9	8.6
Belgium	GDP	2.0	2.9	2.6	2.3
	Inflation	2.8	1.8	1.5	1.5
	Unemployment rate	9.6	9.6	9.0	8.8
	General government balance (% of GDP)	-2.3	0.4	-0.1	-0.2
	Public debt (% of GDP)	92.2	88.2	86.3	84.8
	Current account (% of GDP)	2.6	2.7	2.8	2.5
Finland	GDP	2.9	4.9	4.4	2.6
	Inflation	0.8	1.6	2.5	2.0
	Unemployment rate	8.4	7.7	6.9	6.8
	General government balance (% of GDP)	2.7	3.8	4.1	3.7
	Public debt (% of GDP)	41.4	39.1	36.3	33.8
	Current account (% of GDP)	4.9	5.2	6.6	7.1
Greece	GDP	3.7	4.3	3.7	3.2
	Inflation	3.5	3.1	2.7	2.7
	Unemployment rate	9.9	8.9	8.4	8.1
	General government balance (% of GDP)	-5.1	-2.5	-2.5	-2.4
	Public debt (% of GDP)	107.5	104.6	101.2	97.9
	Current account (% of GDP)	-6.4	-9.6	-9.7	-9.4
Portugal	GDP	0.5	1.3	1.5	1.5
	Inflation	2.3	3.3	2.3	2.2
	Unemployment rate	7.6	7.7	8.0	7.8
	General government balance (% of GDP)	-6.1	-3.9	-3.5	-3.1
	Public debt (% of GDP)	63.9	65.9	66.3	66.6
	Current account (% of GDP)	-9.7	-9.4	-8.7	-7.7
UK	GDP	1.8	2.8	3.0	2.0
	Inflation	2.1	2.4	2.2	1.8
	Unemployment rate	4.8	5.5	5.5	5.9
	General government balance (% of GDP)	-3.3	-2.3	-2.7	-2.5
	Public debt (% of GDP)	42.1	43.2	43.5	44.3
	Current account (% of GDP)	-2.5	-3.2	-2.9	-3.0
Sweden	GDP	2.9	4.5	3.2	2.8
	Inflation	0.5	1.4	2.2	1.9
	Unemployment rate	5.9	5.4	4.6	4.4
	General government balance (% of GDP)	1.8	2.1	1.9	1.9
	Public debt (% of GDP)	52.2	47.0	43.2	40.1
	Current account (% of GDP)	6.9	7.2	7.1	7.1
Denmark	GDP	3.1	3.5	1.5	1.6
	Inflation	1.9	1.9	1.4	1.7
	Unemployment rate	5.5	4.3	3.4	3.1
	General government balance (% of GDP)	4.6	4.6	3.7	3.4
	Public debt (% of GDP)	36.2	30.2	26.5	23.1
	Current account (% of GDP)	4.4	2.6	1.1	1.1
Norway	GDP	2.9	2.8	3.1	2.2
	Inflation	1.5	2.3	0.4	1.7
	Unemployment rate	4.6	3.4	2.5	2.5
	General government balance (% of GDP)	15.2	19.2	17.5	15.0
	Public debt (% of GDP)	44.7	44.0	43.6	43.4
	Current account (% of GDP)	15.5	16.4	14.5	14.0
Switzerland	GDP	2.4	3.2	2.6	2.1
	Inflation	1.1	1.0	0.7	1.3
	Unemployment rate	3.4	3.0	2.8	4.0
	General government balance (% of GDP)	-0.1	0.5	0.2	0.2
	Public debt (% of GDP)	28.1	26.4	25.4	24.5
	Current account (% of GDP)	13.5	15.1	17.6	15.1
Russia	GDP	6.4	6.7	7.0	5.8
	Inflation	12.5	9.8	8.2	7.7
	Unemployment rate	7.5	7.1	6.2	6.2
	General government balance (% of GDP)	8.1	8.5	5.5	1.2
	Public debt (% of GDP)	14.1	8.3	7.8	7.6
	Current account (% of GDP)	11.0	9.6	7.2	5.1

Source: Datastream, Euler Hermes SFAC forecasts

World growth

GDP GROWTH	Weighting (%)	2005	2006	2007	2008	12-10	03-07	06-07	09-07	12-07	03-08
World	100	3.5%	4.1%	3.7%	3.3%						
USA	29.1	3.1%	2.9%	2.0%	1.9%	2.4%	0.2%	0.9%	1.0%	0.1%	0.3%
Canada	2.6	3.1%	2.8%	2.5%	1.7%	1.6%	1.0%	0.8%	0.5%	0.4%	0.4%
Japan	10.6	1.9%	2.2%	1.9%	1.5%	2.0%	0.7%	-0.4%	0.6%	0.3%	0.4%
Euro zone	23.2	1.6%	2.9%	2.6%	2.1%	2.0%	0.8%	0.3%	0.7%	0.5%	0.5%
Germany	6.5	1.0%	3.1%	2.7%	2.0%	1.9%	0.5%	0.3%	0.7%	0.5%	0.5%
France	4.8	1.7%	2.2%	1.9%	2.0%	1.9%	0.6%	0.3%	0.7%	0.4%	0.5%
Italy	4.1	0.2%	1.9%	1.7%	1.5%	1.7%	0.3%	0.1%	0.4%	0.1%	0.5%
Spain	2.6	3.6%	3.9%	3.8%	2.9%	2.8%	1.0%	0.9%	0.7%	0.7%	0.7%
Netherlands	1.5	1.5%	3.0%	3.1%	2.3%	2.1%	0.9%	0.2%	1.8%	0.2%	0.4%
Belgium	0.9	2.0%	2.9%	2.6%	2.3%	2.0%	0.7%	0.6%	0.3%	0.6%	0.6%
Austria	0.7	2.3%	3.1%	3.3%	2.4%	2.3%	0.9%	0.9%	0.8%	0.4%	0.6%
Finland	0.5	2.9%	4.9%	4.4%	2.6%	2.6%	0.7%	0.9%	0.7%	0.6%	0.6%
Greece	0.5	3.7%	4.3%	3.7%	3.2%	2.8%	3.2%	-0.9%	0.6%	0.8%	1.0%
Ireland	0.5	5.9%	5.7%	5.5%	3.1%	3.0%	5.4%	-1.4%	0.8%	0.8%	1.0%
Portugal	0.4	0.5%	1.3%	1.5%	1.5%	1.8%	0.6%	0.5%	0.0%	0.2%	0.5%
UK	5.2	1.8%	2.8%	3.0%	2.0%	2.1%	0.8%	0.8%	0.8%	0.2%	0.5%
Sweden	0.8	2.9%	4.5%	3.2%	2.8%	2.5%	0.7%	0.9%	0.7%	0.7%	0.7%
Denmark	0.6	3.1%	3.5%	1.5%	1.6%	1.4%	0.3%	-0.4%	0.8%	0.5%	0.4%
Norway	0.7	2.9%	2.8%	3.1%	2.2%	1.8%	0.8%	0.9%	0.6%	0.6%	0.5%
Switzerland	0.9	2.4%	3.2%	2.6%	2.1%	2.1%	0.7%	0.7%	0.6%	0.4%	0.5%
Central and Eastern Europe	5.0	5.9%	6.8%	6.3%	5.4%						
Russia	1.8	6.4%	6.7%	7.0%	5.8%						

Sources: Datastream, Euler Hermes SFAC forecasts

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